Item 4

N. Tomasulo

24 99-937 16 R 6 5

CONTENTS

1. Cross-References within the Internal Revenue Code of 1954 as of January 1, 1963

2. Refunds and Credits of Internal Revenue Taxes, Fiscal Year ended June 30, 1960

3. Reporting and Substantiation of Expenses for Travel, Entertainment, and Gifts

4. Refunds and Credits of Internal Revenue Taxes, Fiscal Year ended June 30, 1961

5. Digest of Testimony Presented and Statements submitted to the Committee on Ways and Means with Respect to H.R. 8000. (Interest Equalization Tax Act of 1963)

6. Report on Operation of Stock Option Plan by Chrysler Corporation

7. Brief Summary of the Provisions of H.R. 8000, The "Interest Equalization Tax Act of 1963".

8. Cross-References within the Internal Revenue Code of 1954 as of March 1, 1964

9. "The Revenue Act of 1964" Public Law 88-272. Comparison of Pro= visions of H.R. 8363, as passed by the House, with Present Law, etc.

CONTENTS (Cont.)

10. Federal Excise Tax Data, March 1964.

11. Memoranda (May 26, 1964) Estate Tax Convention with Greece

12. "The Interest Equalization Tax Act of 1963" (H.R. 8000). Outline of Provisions as passed by the House & Amendments recommended by the Treasury Department

13. Digest of Testimony Presented & Statements submitted to the Committee on Finance with respect to H.R. 8000. ("Interest Equalization Tax Act of 1963").

14. Excise Taxes. Summary of Recommendations for Revisions.

15. Excise Taxes. Summary of Technical Issues under Present Law Raised in Testimony Given Before the Committee on Ways and Means.

16. Summary of Senate Amendments to H.R. 8000, Interest Equalization Tax Act.

17. Refunds and Credits of Internal Revenue Taxes, Fiscal Year ended June 30, 1962.

24
99-937

11

12

"THE INTEREST EQUALIZATION TAX ACT OF 1963" (H.R. 8000)

OUTLINE OF PROVISIONS OF H.R. 8000, AS PASSED BY THE U.S. HOUSE OF REPRESENTATIVES, AND AMENDMENTS RECOMMENDED BY THE TREASURY DEPARTMENT

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

BY THE STAFF OF THE

JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

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INTRODUCTION

H.R. 8000, "The Interest Equalization Tax Act of 1963," was passed by the House of Representatives on March 5, 1964. Secretary of the Treasury Douglas Dillon, in a letter dated June 12, 1964, to the chairman of the Committee on Finance, recommended a series of proposed amendments to the bill.

This pamphlet contains a brief summary of the "Interest Equalization Tax Act of 1963" as passed by the House of Representatives, followed by a more detailed section-by-section digest of the bill as passed by the House and the amendments recommended by the Treasury Department.

BRIEF SUMMARY OF THE INTEREST EQUALIZATION TAX ACT OF 1963 AS PASSED BY THE HOUSE OF REPRESENTATIVES (H.R. 8000)

ANTICIPATED FAVORABLE EFFECT ON THE BALANCE OF PAYMENTS

The administration estimates that enactment of this bill may reduce the balance-of-payments deficit by from $1.25 to $1.5 billion a year relative to the rate of deficit in the first 6 months of 1963. Of this amount, the bulk is attributable to the tax on new issues, but substantial savings are also attributable to the tax on outstanding securities.[1]

LIABILITY FOR TAX

U.S. citizens, residents, domestic partnerships, domestic corporations, and domestic estates and trusts are liable for the interest equalization tax if they acquire foreign securities (stock, bonds, mortgages, etc.) from foreigners. The tax applies to both new and outstanding issues. The tax does not apply when a U.S. person acquires foreign securities from another U.S. person.

AMOUNT OF TAX

In the case of the purchase of foreign stock, the tax is 15 percent of the price paid. In the case of debt obligations, the tax ranges from 2.75 percent of the purchase price for obligations having 3 to 3½ years remaining to maturity (measured from the time acquired) up to a top rate of 15 percent for obligations having 28½ or more years remaining to maturity.

Imposition of the tax at these rates has the effect of increasing the interest costs of foreigners borrowing in the U.S. market by approximately 1 percent a year. There is no tax on obligations having less than 3 years remaining to maturity.

PRINCIPAL NONTAXABLE ACQUISITIONS

1. *Investments in less developed countries.*—Purchases of securities of less developed countries (including their political subdivisions) and of less developed country corporations are exempt from tax. All countries other than the developed countries of Western Europe, Australia, Canada, Japan, New Zealand, and South Africa may be designated by the President as "less developed." Less developed country corporations are those which conduct most of their activities in less developed countries and have most of their assets in these countries.

[1] Based upon a comparison of capital movements in the 3d quarter of 1963, relative to the 1st half of 1963, $1,100,000,000 would be attributable to the tax on new issues, while $400,000,000 would be attributable to the tax on outstanding securities.

2. *Investments of 10-percent-owned subsidiaries.*—Purchases of stock or debt obligations of a foreign corporation are exempt from tax if the U.S. person acquiring the security owns 10 percent or more of the voting stock of the foreign corporation. This exemption will apply principally to acquisition of stock in foreign subsidiaries by their domestic parent corporations.

3. *Export transactions.*—These are a series of export exemptions which generally have the effect of exempting debt obligations from tax if they are obtained by U.S. persons in connection with the extension of credit to foreign purchasers of U.S.-produced goods.

4. *International monetary stability.*—The President is authorized to exempt new issues of foreign securities originating in a particular foreign country if he finds that such an exemption is required to maintain international exchange stability. Under present circumstances, the administration has indicated that new Canadian issues are the only issues that will be exempt under this authority, but has stated that the exemption is contingent on a moderation in Canadian borrowings to amounts necessary for Canada to attain an equilibrium in its reserve position. The exemption can be limited or revoked by the President.

5. *Commercial banks.*—Debt obligations obtained by commercial banks in making loans in the ordinary course of a commercial banking business are exempt from tax. Most of these debt obligations are in the less-than-3-years category, and as a result would in any event be exempt from this tax. Commercial banks must furnish information to the Secretary of the Treasury as to their foreign lending so that it will be possible to forestall any abuse of this exemption.

6. *Insurance companies.*—Insurance companies are permitted to invest premiums collected abroad in foreign securities tax free in an amount equal to 110 percent of their allowable reserves against foreign risks.

7. *Labor unions, etc.*—Labor unions and other membership-type exempt organizations are permitted to invest dues collected abroad from foreign members in foreign securities without payment of tax.

8. *Underwriters.*—U.S. underwriters of foreign securities are, in effect, exempt from tax on securities which they acquire and resell to foreigners as part of an underwriting.

9. *Stock of certain U.S.-controlled foreign corporations.*—Purchases of stock of a foreign corporation are exempt from tax if the stock of the corporation is more than 50 percent owned by U.S. persons and U.S. registered national securities exchange constituted the principal market for the stock for 1962.

METHOD OF PAYMENT

The purchaser of a foreign security must pay the tax due upon his purchase. He is required to pay the tax on a quarterly basis at the time he files a return with the Internal Revenue Service reporting his transactions.

In general, foreign securities are acquired either through a broker on a national securities exchange or in an over-the-counter transaction, or by a direct purchase from the seller. In the case of acquisitions through a broker executive an order on a registered stock exchange or in an over-the-counter transaction, the confirmation of purchase the

buyer receives from his broker will indicate whether the purchase has been made from an American seller (and therefore exempt from tax) or from a foreign seller. This information is available to the purchaser's broker since rules adopted by the registered securities exchanges, and by over-the-counter dealers, require that transactions in foreign securities be made either in a "regular" market, which indicates that the seller is a U.S. person, or in a "special" market, which indicates that the purchaser is subject to tax unless an exemption applies. The seller may inform his broker as to his status as a U.S. person by notifying him each time a transaction occurs or by filing a blanket certificate covering all transactions through his account. Securities purchased directly from the seller will generally be subject to tax unless the purchaser obtains a certificate of American ownership from the seller.

PENALTIES FOR FAILURE TO FILE

If a person fails to file the required interest equalization tax return and fails to pay the tax, he is subject to a civil penalty of up to 25 percent of the tax due. In addition he may also be subject to a criminal penalty of $10,000 or 1 year imprisonment, or both.

EFFECTIVE DATE

In general, the bill is effective with respect to acquisitions of foreign securities made after July 18, 1963. The tax is scheduled to apply only to purchases before January 1, 1966.

ESTIMATED REVENUE EFFECT

It is estimated that this bill will increase revenues by up to $30 million a year.

Section-by-Section Digest—H.R. 8000—"The Interest Equalization Tax Act of 1963"

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4911	IMPOSITION OF TAX	
(a)	Imposes a tax on the acquisition by a U.S. person of stock of a foreign issuer or debt obligations of a foreign obligor. Provides that the tax does not apply to the acquisition of a debt obligation having a period remaining to maturity of less than 3 years.	
(b)	Establishes rates of tax which range from 2.75 percent on bonds of 3 to 3½ years maturity up to 15 percent on bonds having a maturity of 28½ years or more and on stocks.	
(c)	Tax is to be paid by the *purchaser* of a foreign security.	
(d)	Tax terminates Dec. 31, 1965.	
4912	ACQUISITIONS	
(a)	Defines the term "acquisition" to mean any transaction by virtue of which ownership of a foreign security is obtained by a U.S. person.	
(b) (1), (2), (3)	These paragraphs contain a series of provisions designed to prevent avoidance of tax by— Treating a transfer to a foreign trust as the acquisition of foreign *stock* by the transferor if, and to the extent, the foreign trust acquires foreign stock or debt obligations which would be taxable if acquired directly by the transferor. However, this provision would not apply to transfers by full-time U.S. foreign based employees to trusts created under foreign pension and profit-sharing plans	

	established by their employers. Exception does not apply to contributions by owners of their own businesses or 10 percent partners.	
	Treating a contribution to capital of a foreign corporation or partnership as an "acquisition" of foreign *stock* having a value equal to the amount contributed.	
	Treating the acquisition of a debt obligation as the acquisition of *stock* if the debtor foreign corporation or partnership is used principally for the purpose of acquiring foreign securities.	
	Providing for the look-through of loans to, and stock investments in, domestic corporations and partnerships if they are used to acquire funds for a foreign corporation or partnership. Treats the security acquired from the domestic entity as having been acquired from a foreigner.	Tax the loan to the domestic subsidiary, or the loan by it to its foreign parent, but not both. The transaction producing the most tax would, in effect, be the one taxed.
(b)(4)	When coupled with sec. 4914(a)(4), permits U.S. shareholders of foreign corporations to obtain foreign securities tax free if they are received in pursuance of a plan of reorganization, or as a distribution, if gain on the exchange or distribution would be exempt from income tax if domestic corporations were involved.	

34-577—64——2

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4913	LIMITATION ON TAX ON CERTAIN ACQUISITIONS	
(a)	This subsection provides rules which limit the tax in specified situations: (1) If a debt obligation is acquired as a result of the surrender, extension, or renewal of another debt obligation, the tax is, in effect, based on the *additional* maturity period obtained. (2) If stock is acquired through the exercise of an option or right— (*a*) the tax is, in general, limited to 15 percent of the value of the security acquired less the tax that would have been payable had the option or right been acquired in a taxable transaction at the time of exercise; and	
	(*b*) the tax is based on the subscription price for stock if the person exercising the right (1) received it as a shareholder of the corporation whose stock is acquired and (2) was required to exercise it within 90 days after distribution.	Base the tax on the subscription price, regardless of who exercises the right, if in fact the right is exercised within 90 days of its distribution.
	(3) If stock is acquired through the conversion of a debt obligation by the person who acquired the debt obligation in a taxable transaction, the 15 percent tax payable on the acquisition of the stock is reduced by the tax paid at the time the debt obligation was acquired.	If no tax was payable at the time the debt obligation was acquired, a reduction of tax at the time of conversion would, nevertheless, be allowed in an amount equal to the tax that would have been payable had the debt obligation been taxed when acquired.
	(4) Acquisitions of foreign governmental obligations are, in effect, exempt from tax if they are obtained in exchange for obligations which	

have been in default as to principal for at least 10 years.

(b) If a transfer to a foreign trust, corporation, or partnership is taxable in its own right, and the transfer is also treated as an acquisition of foreign stock under a provision intended to prevent tax avoidance, the overall tax is limited to a maximum of 15 percent of the amount transferred.

4914 EXCLUSION FOR CERTAIN ACQUISITIONS

(a) Tax does not apply to transactions which involve—

1. Transfers between a person and his nominee, custodian, or agent.
2. Transfers by operation of law; e.g., from a decedent to his executor.
3. Inheritances and gifts.
4. Distributions to shareholders by a corporation of *its* stock or debt obligations.
5. Receipt of foreign stock by a domestic corporation in exchange for its property if the transaction would constitute a tax-free reorganization if it occurred between domestic corporations. However, the domestic corporation must have been engaged in an active business (other than as a securities dealer) before the transfer.
6. Conversions of debt obligation into stock if the debt obligation was initially treated as stock on the basis that it had to be converted within 5 years of issuance.
7. The grant of an employee stock option if the option is nontransferable.

(b) Tax does not apply to acquisitions—

1. By the United States.
2. Of debt obligations by commercial banks in making loans in the ordinary course of their commercial banking business (and stock or debt obligations acquired through foreclosure).
3. Necessary to satisfy foreign law as a condition of doing business.

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4914	EXCLUSION FOR CERTAIN ACQUISITIONS—Continued	
(c)	4. Of debt obligations received by an exporter of U.S. produced property if—	
	(*a*) The loan is guaranteed or insured by an agency of the United States (e.g., the Export-Import Bank);	Extend exemption to "related debt obligations" arising out of a sale guaranteed or insured by an agency of the United States.
	(*b*) 85 percent of the purchase price is attributable to U.S.-produced goods or services of U.S. persons;	Extend exemption to cases where 85 percent of the purchase price is attributable to the sale of intangible property (such as patents and know-how) produced in the United States by the U.S. seller and/or related services performed by the seller.
	(*c*) 30 percent of the purchase price is attributable to property produced by the exporter in the United States or to services performed by him *and* 50 percent of the purchase price is attributable to property produced or services performed by all U.S. persons (applicable to debt obligations *and stock*); or	
	(*d*) The proceeds of a loan are used for the construction of facilities, such as a warehouse, a substantial portion of which will be used for handling goods produced in the United States by the person making the loan.	
	5. Of debt obligations received under a long-term contract as part of the purchase price of ores or minerals extracted outside the United States by the person making the loan (or a related corporation) or in connection with the construction of facilities a substantial portion of which will be used for handling ores or minerals extracted outside the United States by the person making the loan (or a related corporation).	Modify the relationship that must exist between the U.S. person making the loan and the person who extracts the ore or mineral. Retain the present rule if the person making the loan or an includible corporation in an affiliated group extracts the ore or mineral; but delete as a permissible relationship that of 10 percent owned subsidiaries which are 50 percent owned by no more than 4 other 10 percent U.S. shareholders and replace it with extracting corporations 10 percent owned (1) by the per-

		an affiliated group of which the person making the loan is a member; or (3) by domestic corporations which own 50 percent or more of the voting stock of the corporation making the loan. Exempt debt obligations received under the specified circumstances (long-term contracts or facilities) if the ore or mineral sold is acquired by the person making the loan under a contract entered into before July 19, 1963.
(d)	6. Of debt obligations of a foreign corporation if (*a*) U.S. persons own at least 50 percent of the voting stock of the foreign corporation; (*b*) the foreign corporation extracts or processes ores or minerals which cannot adequately be supplied from U.S. sources and (*c*) U.S. shareholders have a "take or pay" contract with the foreign corporation with respect to the ore or mineral extracted or produced.	
(e)	7. Of stock or debt obligations acquired by insurance companies in an amount not to exceed at any given time, 110 percent of their reserves against contracts payable in the currency of a foreign country (on a per country basis for life insurance companies and an overall basis for other insurance companies).	Modify as follows: (*a*) Permit qualification if the proceeds of a policy are required for any reason to be paid in a foreign currency. (House bill requires the policy to require payment in a foreign currency.) (*b*) Use the adjusted basis of securities (rather than market value) in determining value for purposes of imposing the 110-percent limitation.
	If an insurance company acquires a security tax-free under this provision and it is sold to an American after Dec. 10, 1963, the American purchaser must pay tax as if he acquired the security from a foreigner.	
	Initial designation:	
	(1) Must be made within 30 days after enactment as of Dec. 10, 1963.	Create the fund as of July 18, 1963.
	(2) Use the reserve as of Dec. 31, 1962, as the basis for the opening balance.	Use actual reserve as of July 18, 1963. Alternatively, use mean of balances at beginning and end of year.
	(3) Securities of more than 3 years' maturity held on Dec. 10, 1963, must be placed in the fund (except securities of less-developed countries).	Establishes order of priority (as of July 18, 1963) by which securities are to be placed in the fund: 1. Securities with more than 3 years' maturity which are payable in a foreign currency; 2. Securities of less than 3 years' maturity, if taxpayer elects; 3. Securities with more than 3 years' maturity which are payable in U.S. currency.

Section-by-Section Digest—H.R. 8000—"The Interest Equalization Tax Act of 1963"—Continued

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4914	EXCLUSION FOR CERTAIN ACQUISITIONS—Continued	
(e)	Maintenance designations: (1) Securities of more than 3 years' maturity remaining at time of acquisition may be acquired tax free if designated as part of a fund within 30 days after their acquisition. (2) Securities acquired during a year may not be designated as part of a fund if their designation would bring the value of the assets in the fund above 110 percent of the reserve balance at end of previous year. However, if the end-of-year balance proved to be higher, refund of tax could be claimed, to the extent of the increase, on taxable securities acquired during the year.	Permit insurance companies to estimate their end-of-year reserve balance and use it as the limiting factor for designation made during the year. If excessive designations are made during a year, tax would be payable as if such designations had not been made. If insufficient designations had been made, refund of tax could be claimed on taxable securities acquired during the year. Require any year-end deficiency in a fund to be filled with securities acquired tax free under an exemption granted by the President to maintain stability in the international monetary system.
(f)	8. Stock or debt obligations acquired by tax-exempt labor and fraternal organizations which operate in foreign countries if they represent investment of membership fees of foreign members collected in a foreign currency for whose benefit the funds are held.	Additional exemptions: 1. Debt obligations received by a U.S. person in connection with the sale of a wholly owned foreign subsidiary. 2. Debt obligations received by a U.S. person in connection with the sale of U.S. real property if at least 25 percent of the purchase price is paid at the time of sale in U.S. dollars. 3. Acquisitions made, in conformity with the laws of a foreign country, as a substitute for the payment

			4. Acquisitions of stock in cooperative housing corporations if acquired for the purpose of obtaining a dwelling.
	(g)	In general, if stock or a debt obligation is acquired tax free under exemptions 4 (b), (c), or (d), 5, 6, or 8, it becomes taxable if it is transferred other than to (*a*) a commercial bank receiving it in the ordinary course of its business, or (*b*) an agency of the United States. Tax is payable at the time of transfer based on the original acquisition price.	Permit the transfer of export paper to any person if extension of credit by the exporter was necessary to accomplish the sale and was not unreasonable in light of credit practices in the business involved.
4915		Exclusion for Direct Investments	
	(a)(1)	Tax does not apply to acquisitions of stock or debt obligations of a foreign corporation by a person owning 10 percent or more of the voting stock of the corporation whose securities are acquired. Similar exemption applies to an acquisition from a partnership by a 10-percent partner.	Extend the exclusion to cases where a 10-percent shareholder acquires debt obligations of persons other than its subsidiary if the debt obligations were acquired by the subsidiary in the ordinary course of its business as a result of the sale or rental of products produced by it or for services performed by it.
	(a)(2)	If a shareholder or partner does not have a 10-percent interest immediately following an acquisition, but acquires a 10-percent interest by the end of a calendar year, refund of tax paid on acquisitions during year can be obtained.	Permit refund of tax in cases where a 10-percent interest is acquired within a 12-month period following an otherwise taxable acquisition.
	(b)	In effect, waives the 10-percent requirement where U.S. persons are prevented by a foreign government from acquiring a 10-percent interest if the person making the acquisition owns 5 percent or more of the voting stock of the foreign corporation whose securities are acquired and the business of the foreign corporation is related to that of the U.S. shareholder.	
	(c)(1)	Prevents application of the direct-investment exclusion in cases where a foreign corporation is formed or availed of for the purpose of acquiring foreign securities which would be taxable to a 10-percent or greater shareholder if acquired directly by him.	
	(c)(2)	Specifies certain situations in which the 10-percent exclusion rule is to apply even though a foreign corporation is used to acquire foreign securities; e.g., investments in foreign commercial banks and foreign corporations engaged in the underwriting business.	

Section-by-Section Digest—H.R. 8000—"The Interest Equalization Tax Act of 1963"—Continued

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4915	EXCLUSION FOR DIRECT INVESTMENTS—Continued	
(c)(3)	Provides that if an acquisition is excluded under the 10-percent rule, but the corporation or partnership is later availed of for the principal purpose of acquiring foreign securities, which would be taxable if acquired directly by the shareholders, the tax applies at the time the corporation or partnership is availed of for that purpose based upon the original acquisition price.	
(d)	Prevents application of the direct-investment exclusion in cases where foreign securities are acquired with an intent to sell them to Americans.	
4916	EXCLUSION FOR INVESTMENTS IN LESS-DEVELOPED COUNTRIES	
(a)	Exempts securities of less-developed countries, less-developed-country corporations, and obligations of individuals resident in less-developed countries, from tax.	Extend exemption to securities acquired by a U.S. person as a result of reinvesting proceeds paid by a less-developed country in connection with the nationalization of the U.S. person's foreign assets.
(b)	Gives the President power to designate any country other than those specified in the bill as a less-developed country.	
(c)	Provides the rules for qualification as a less-developed-country corporation and the period over which they must be met.	Make it clear that a corporation without gross income may qualify for exemption solely on the asset test.
	Qualification requirements: (*a*) The corporation must be engaged in an active trade or business and derive 80 percent of its gross income from sources within, and have 80 percent of its assets within, less-developed countries; or	Exclude income from property located in the United States and income from U.S. securities for purposes of the 80-percent income test. Treat short-term (less than 1 year) securities of a less-developed country as a less-developed-country asset for purposes of the 80-percent asset test.

Section	Provision	Effect
	(*b*) Must derive 80 percent of its gross income from sources within less-developed countries and 80 percent of its assets must consist of securities of less-developed countries or less-developed-country corporations.	In effect (1) treat interest on U.S. bank deposits as income from within a less-developed country; and (2) exclude income from property located in the United States, income from U.S. securities, and interest on foreign bank deposits, for purposes of the 80-percent income test. In effect, treat U.S. bank deposits, tangible property located in the United States, U.S. Government obligations, and short-term securities of less-developed countries and securities of U.S. persons, as less-developed-country assets for purposes of the 80-percent asset test.
	Period of qualification: (*a*) In general, a corporation must meet the income and asset tests for the year in which the U.S. person acquired the security and for the immediately preceding and succeeding years. (*b*) Binding rulings may be issued by the Internal Revenue Service before an acquisition is made based on the fact the corporation qualified as a less-developed-country corporation in the prior year and is likely to qualify for the current and succeeding year. (*c*) In lieu of obtaining an advance ruling, a U.S. person can acquire a security tax free if the corporation qualified as a less-developed-country corporation for the year immediately preceding the year of acquisition. In the event it fails to qualify for the current and succeeding year, tax becomes payable at the end of the year in which it first fails to qualify based upon the original acquisition price.	
4917	EXCLUSION FOR ORIGINAL OR NEW ISSUES WHERE REQUIRED FOR INTERNATIONAL MONETARY STABILITY	
(a)	Permits the President to exempt new issues of securities originating in a foreign country if he finds that the exemption is necessary to maintain stability of the international monetary system.	

Section-by-Section Digest—H.R. 8000—"The Interest Equalization Tax Act of 1963"—Continued

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4917	EXCLUSION FOR ORIGINAL OR NEW ISSUES WHERE REQUIRED FOR INTERNATIONAL MONETARY STABILITY—Continued	
(b)	The exemption may be limited or unlimited. If limited, the exemption applies to acquisitions as to which notices were first filed, provided they are acquired within 90 days after filing.	Permit the President to extend the period within which a security must be acquired beyond 90 days.
(c)	Defines the term "original or new issue" to include stock acquired from the issuer and debt obligations acquired within 60 days after interest begins to run.	Treat a debt obligation as a new issue if acquired within 90 days after interest begins to accrue. Treat mortgages used to finance construction, and construction loans issued in series over the period of construction, as new issues.
4918	EXEMPTION FOR PRIOR AMERICAN OWNERSHIP	
(a)	Tax does not apply if the U.S. purchaser can establish "by clear and convincing evidence" that he purchased the security from another American. Subsecs. (b), (c), and (d) set forth 3 methods of proof.	Provide that tax does not apply only if the purchaser furnishes— 1. A certificate of prior American ownership; 2. Confirmation of an acquisition on a registered exchange which does not specify that the acquisition was made subject to a "special" contract; 3. A written confirmation from a member of a national securities association with respect to an over-the-counter transaction if the confirmation does not specify that the acquisition was from a person who had failed to execute and file a certificate (or blanket certificate) of American ownership; or 4. Other evidence that the person from whom the acquisition was made was a U.S. person eligible to execute a certificate of American ownership, if reasonable cause is shown why prior American ownership cannot be established under items 1, 2, or 3.

Section	Present law	Proposal
(b)	Receipt of a certificate of American ownership by the purchaser from the seller is conclusive proof of exemption unless the purchaser knows the certificate to be false.	
(c)	Confirmation of purchases in the "regular market" on a national securities exchange registered with the SEC is conclusive proof of exemption unless the purchaser knows the confirmation is false. For the exemption to apply the exchange must have rules which require the selling broker to obtain a certificate (or blanket certificate) of American ownership from the seller as a condition for trading in the "regular market" and the purchasing broker must notify the purchaser that the security is acquired in the "regular" market.	Provide that the rules adopted by a registered exchange require that the confirmation received by a purchaser from his broker contain a special notation only when the security was acquired in the "F" market.
(d)	Provides treatment similar to that accorded exchanges to over-the-counter transactions. Since transactions are not handled on a "regular" or "special" market basis, the selling broker must affirmatively notify the purchasing broker that the seller has not executed a certificate (or blanket certificate) of American ownership with respect to the securities sold.	
(e)	Provides that the Secretary of the Treasury shall prescribe the information required to be supplied on the certificate of American ownership form and the manner in which they are to be executed and filed.	
4919	SALES BY UNDERWRITERS AND DEALERS TO FOREIGN PERSONS	
(a) (1), (2)	Provides that U.S. underwriters of foreign securities may claim a refund of tax with respect to securities resold to foreigners as a part of a distribution. In the case of private placements the exemption only applies if the underwriter acquires the securities directly from the issuer or obligor and resells the securities to foreigners himself. In the case of public offerings the securities need not be acquired directly from the issuer or obligor and refund of tax is allowed if a member of the underwriter's selling group resells the securities to a foreigner.	Eliminate the distinction between private placements and public offerings by adopting the present rules applicable to public offerings in both cases.

Section-by-Section Digest—H.R. 8000—"The Interest Equalization Tax Act of 1963"—Continued

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4919	SALES BY UNDERWRITERS AND DEALERS TO FOREIGN PERSONS—Continued	
(a) (3)	Permits dealers to obtain a refund of tax paid on the acquisition of a debt obligation if it is resold to a foreigner within 90 days after acquisition.	Treat sales to a U.S. dealer as a sale to a foreigner if the purchasing dealer resells the debt obligations to a foreigner on the day he purchases them or on the next business day. Permit dealers to, in effect, buy foreign *stock* tax free if they sell it to a foreigner on the same day as they purchase it.
(b)	To obtain a refund of tax, an underwriter or dealer must file such information as the Secretary of the Treasury may require showing proof of a sale to a foreign person. An underwriter may use a certificate of sale to foreign persons executed by fellow members of a distributing group as conclusive proof of sales to foreign persons.	Provide that the sale of a debt obligation by a dealer in the "F" market on a registered exchange constitutes conclusive proof of sale to a foreigner if the exchange has a rule which requires the selling dealer to disclose to the purchaser that he is a dealer who intends to claim a refund of tax. If the purchaser is a dealer, he is initially subject to tax and may not claim a refund unless he sells to a foreigner on the day the debt obligation is purchased or the next business day. In the case of over-the-counter transactions, if a national securities association registered with the SEC has a rule which (*a*) requires a selling dealer to notify a purchasing dealer of his intention to claim a refund of tax on the basis of the 90-day dealer resale provision, and (*b*) requires a purchasing dealer receiving such a notice to furnish a statement to the selling dealer showing whether or not the debt obligation was purchased for a foreigner or resold to a foreigner on the same or next business day, the statement received by the selling dealer will be conclusive proof of a sale to a foreigner if the statement so indicates.

Section	Present law / Bill	Proposed
(c)	Defines the terms "underwriter" and "dealer."	
4920	**DEFINITIONS** This section defines various terms used in the act. The principal variations from the normal definitions of these terms are that they— Treat debentures convertible into stock as stock if they *must* be converted within 5 years of issuance. Permit U.S. regulated investment companies to be treated as foreign corporations if 80 percent of their assets consist of foreign securities. Treat foreign corporations as domestic corporations with respect to a class of stock if (1) such class of stock is more than 50 percent owned by U.S. persons and (2) U.S. registered exchanges constituted the principal market for the stock during 1962. Treat demand notes as having a maturity of less than 3 years. Treat notes with no fixed or determinable maturity date as having a maturity of 28½ years.	
	EFFECTIVE DATE In general, the interest equalization tax is applicable to acquisitions made after July 18, 1963. However, the tax does not apply to— (1) acquisitions made after July 18, 1963, if on that date the commitment to make the acquisition was (*a*) unconditional, (*b*) binding by normal business practices, or (*c*) approved by a foreign government; (2) securities acquired before September 17, 1963, pursuant to a registration statement filed with the SEC before July 19, 1963; (3) securities acquired on a registered exchange before August 17, 1963; (4) stock acquired as the result of the exercise of an option held on July 18, 1963;	Exempt acquisitions made as a result of the reinvestment within a less-developed country of the proceeds of a contract (or commitment) entered into before July 18, 1963, with a less-developed country as a result of the nationalization, expropriation, or seizure of property by the foreign government, if such reinvestment within the country was required by the terms of the contract.

Section-by-Section Digest—H.R. 8000—"The Interest Equalization Tax Act of 1963"—Continued

Sec. No.	As passed by the House of Representatives	Related Treasury Department recommendation for modification
4920	EFFECTIVE DATE—Continued	
	(5) the acquisitions of securities by a regulated investment company which elects to be treated as a foreign corporation to the extent such acquisitions do not exceed the proceeds of a subscription offering registered with the SEC before July 19, 1963, and distributed before September 17, 1963;	
	(6) acquisitions by a regulated investment company which reorganizes as a domestic corporation.	Permit a U.S. regulated investment company to acquire the assets of the foreign corporation in exchange for its stock.
	RETURNS	
	Quarterly returns are due on the last day of the month following the close of a calendar quarter during which a U.S. person has acquired foreign securities in (1) taxable transactions and/or (2) tax-free transactions under the exemption applicable to acquisitions from prior American owners (other than acquisitions made on a registered exchange or over the counter).	If an exemption based on prior American ownership is claimed, the purchaser must attach a certificate of American ownership to his return or explain the basis for his exemption and the reason for not filing a certificate. As in the case of the House bill, no filing is required with respect to tax-free registered exchange or over-the-counter transactions.
	The Secretary of the Treasury may require commercial banks to file returns showing loans to foreigners.	
	Selling dealers must maintain records on sales made in the regular market of a registered exchange or an exempt sale made over the counter.	Require a purchasing dealer to maintain records to establish that the transaction was in the regular market or that he acquired a confirmation from the selling dealer that the seller was an American.
	The President is authorized to open interest equalization tax returns for inspection in the same manner as most other tax returns.	

Present law	Proposed change
Disallowance for Deduction for Amount Paid as Interest Equalization Tax	
As a general rule, the interest equalization tax must be capitalized. If a premium results, it is amortizable.	Treat the interest equalization tax as part of the "initial offering price" in the case of private placements for purposes of determining original issue discount.
If an amount is includible in gross income as a reimbursement for tax paid by the purchaser of a foreign security, the purchaser may deduct an amount equal to the amount includible in gross income.	
Penalties	
1. For failure to file a return in case of tax-exempt purchases from an American (other than on an exchange or over the counter)—a civil penalty of $10, or 5 percent of the tax that would have been payable had the acquisition been taxable (if greater), for each failure to file. Maximum penalty is $1,000.	Provide a civil penalty equal to 125 percent of tax otherwise due if a dealer or broker does not comply with exchange or association rules governing the resale of debt obligations by a dealer to a foreigner within 90 days.
2. If a seller furnishes a false certificate of American ownership—he is liable for a civil penalty equal to 125 percent of the tax otherwise payable by the purchaser; plus, if the offense was willful, a criminal penalty of up to $1,000 and/or 1 year imprisionment.	
3. If a broker executes a sale in the regular market of a registered exchange or the tax-exempt over-the-counter market in cases where he has not received a certificate (or blanket certificate) of American ownership from the seller—he is liable for a civil penalty equal to 125 percent of the tax that would have been payable by the purchaser had he acquired it from a foreigner.	
4. If an underwriter furnishes a false certificate of sale to a foreign person—he is liable for a civil penalty equal to 125 percent of tax otherwise payable by the underwriter; plus, if the offense is willful, a criminal penalty of up to $1,000 and/or 1 year imprisonment.	